

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 14 – RESTRICTIONS, RESERVES, DESIGNATIONS, AND CHANGES IN EQUITY**

**Net Assets**

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are classified into three categories:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- *Restricted net assets* results when constraints are placed on net asset use either by external parties or by law through constitutional provision or enabling legislation.
- *Unrestricted net assets* consists of net assets that do not meet the definition of the two preceding categories.

Restricted Net Assets – Other purposes

\$ 310,199,848	Public Transportation Enterprise restricted for future construction projects (\$268,968,481) and debt service (\$41,231,367).
74,145,082	Water Quality Enterprise restricted for debt service.
21,652,581	King County International Airport Enterprise restricted for future construction projects.
1,518,315	Radio Communications Enterprise restricted for construction.
<u>192,980</u>	Sewer Utility Enterprise bond restrictions.
<u>\$ 407,708,806</u>	Total Business-type Restricted Net Assets – Other purposes

**Reserves and Designations**

King County records two general types of reserves. One type indicates that a portion of the fund balance is legally segregated for a specific future use; the other type indicates that a portion of the fund balance is not available for appropriation. Designated fund balances represent tentative plans (including those plans prescribed by local ordinance) for future use of financial resources.

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Following is a list of all reserves and designations used by King County and a description of each:

**Reserved Fund Balances**

	GENERAL FUND	PUBLIC HEALTH FUND	NONMAJOR SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
Reserved for:					
Inventory	\$ -	\$ 3,172,068	\$ -	\$ -	\$ -
Prepayments	-	-	-	-	96,388
Encumbrances	4,867,134	930,270	12,830,105	-	98,532,586
Advances to other funds	300,000	-	-	-	-
Animal services	329,136	-	-	-	-
Crime victim compensation program	1,068,950	-	-	-	-
Drug enforcement program	181,684	-	-	-	-
Antiprofitteering program	393,580	-	-	-	-
Dispute resolution	67,245	-	-	-	-
Inmate welfare	1,315,446	-	-	-	-
Laptop replacement	733,858	-	-	-	-
Real property title assurance	25,152	-	-	-	-
Managed care risk pool	-	500,000	-	-	-
Training and equipment for Medic One	-	214,483	-	-	-
Arts and cultural development endowment	-	-	3,953,146	-	-
PFD stadium bond debt service	-	-	-	10,181,598	-
PFD stadium bond debt service - escrow	-	-	-	7,054,184	-
Total reserved fund balances	<u>\$ 9,282,185</u>	<u>\$ 4,816,821</u>	<u>\$ 16,783,251</u>	<u>\$17,235,782</u>	<u>\$ 98,628,974</u>

Reserved for inventory – This account is used to segregate a portion of fund balance in the amount of the inventory of supplies carried as an asset; it represents resources that are not available and spendable for the fund's current operations.

Reserved for prepayments – This account is used to segregate a portion of fund balance equal to the asset prepayments; it does not represent available, spendable resources for the fund's current operations.

Reserved for encumbrances – This account is used for commitments made for goods or services before year-end that have not been delivered or completed as of year-end. The budget for these commitments will be reestablished in the new year without reappropriation.

Reserved for advances to other funds – This account is used to segregate a portion of fund balance for advances to other funds (the noncurrent portion of interfund loans receivable) to indicate that they do not constitute available financial resources and are not available for appropriation.

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Reserved for animal services – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of funding the Animal Services program, which promotes and enforces the humane treatment of the animal population of King County.

Reserved for Crime Victim Compensation Program – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted to the Crime Victim Compensation Program and are not spendable resources for other expenditures.

Reserved for drug enforcement program – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purposes of enhancing enforcement of the Uniform Controlled Substances Act, chapter 69.50 RCW, or other laws regulating controlled substances, including training, equipment, and operational expenses.

Reserved for antiprofitteering program – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purposes of the investigation and prosecution of any offense included in the definition of criminal profiteering set forth in chapter 9A.82 RCW.

Reserved for dispute resolution centers – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of funding dispute resolution centers.

Reserved for inmate welfare – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of the welfare of inmates held by the Department of Adult and Juvenile Detention.

Reserved for laptop replacement – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of replacing laptop computers used by police officers.

Reserved for real property title assurance – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of the payment of damages to any person sustaining loss or damage, through any omission, mistake, or misfeasance of the registrar of titles, or of any examiner of titles, or of any deputy, or by the mistake or misfeasance of the clerk of the court, or any deputy, in the performance of their respective duties under the provisions of chapter 65.12 RCW Registration of Land Titles (Torrens Act).

Reserved for managed care risk pool – Seattle-King County Department of Public Health is affiliated with Blue Cross/Carenet and the Community Health Plan of Washington (CHPW) in order to provide care to approximately 8,000 Healthy Options Managed Medicaid enrollees. For CHPW enrollees, the Health Department shares a portion of the risk for the continuum of care to those individuals and families. In addition to the risk of providing primary care within a fixed capitation (a fixed payment per enrollee per month, independent of the primary care utilization), the Health Department is also at risk for provision of specialty services and hospital care. Specifically, the Health Department is responsible for a portion of losses not covered by

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the specialty and hospital pools held by the plans or by reinsurance for extraordinary costs. In order to plan for those potential losses, maintenance of a risk reserve pool is required.

Reserved for training and equipment for Medic One – This account is used to segregate a portion of fund balance to indicate that the use of donations from individuals to Medic One are restricted to equipment purchases and training for paramedics and medical services officers.

Reserved for arts and cultural development endowment – This account is being used, pending the establishment of a Permanent Fund, to segregate the Hotel/Motel tax revenues distributed to the Arts and Cultural Development Fund pursuant to RCW 67.28.180.3(e), for the purpose of establishing an endowment.

Reserved for PFD Stadium bond debt service – This account is used to segregate the revenues collected by the County that are earmarked for future debt service payments on the 1997A-1, 1997B, 1997D, and 2002 Refunding tax exempt Baseball Stadium bond issues.

Reserved for PFD Stadium bond debt service – escrow – This account is used to segregate the revenues collected by the County that are earmarked for future debt service payments on the 1997A-2 and 1997C taxable Baseball Stadium bond issues.

**Designated Fund Balances**

	GENERAL FUND	PUBLIC HEALTH FUND	NONMAJOR SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
Designated for:					
Equipment replacement	\$ -	\$ -	\$ 4,997,712	\$ -	\$ -
Capital projects	206,579	-	314,331	-	-
FEMA match	-	-	119,607	-	-
Insurance/inpatient	-	-	2,768,452	-	-
Reappropriation	2,772,175	496,476	6,450,900	-	-
Net unrealized gains	3,535,573	-	1,446,471	246,643	2,353,051
Contingencies	15,000,000	-	-	-	-
Children and family services program	86,595	-	-	-	-
Total designated fund balances	<u>\$ 21,600,922</u>	<u>\$ 496,476</u>	<u>\$ 16,097,473</u>	<u>\$ 246,643</u>	<u>\$ 2,353,051</u>

Designated for equipment replacement – This account is used to indicate that a portion of fund balance has been earmarked for the replacement of equipment.

Designated for capital projects – This account is used to identify a portion of fund balance in General and Special Revenue Funds equal to the budget for capital projects not expended and expected to be reappropriated for the coming year. The projects may be decreased, increased, and changed in scope by the County Council in their budget deliberations.

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Designated for FEMA match – This account is used to identify a portion of fund balance in the Flood Control Zone Districts Fund that has been designated for future use as a local match for federal and state grants in the event of a federally-declared flood disaster.

Designated for insurance/inpatient – This account sets aside funds used to cover inpatient adjustments, outpatient tier benefits and closeout expenditures if the King County Regional Services Network (KCRSN) becomes insolvent. The KCRSN is funded primarily by capitated payment and consolidated revenues. The capitated revenue for Prepaid Health Plan (PHP) services is based on the number of Medicaid recipients in King County. The consolidated revenues are expended for the PHP services for adults and children, as well as other services required to support people with mental illness in King County.

Designated for reappropriation – This account is used at year-end for lapsed appropriations for which special requests have been made to obtain reappropriation in the coming year.

Designated for net unrealized gains – This account is used to segregate the portion of fund balance representing unrealized gains and losses on investment holdings. GASB 31 now requires governments to report investments at fair values and to charge investment income for the change in fair value of investments at the end of the year.

Designated for contingencies – This account is used to segregate a portion of fund balance to indicate that resources have been earmarked by county ordinance for the following: (1) maintenance of essential county services in the event that General Fund revenue collections in a given fiscal year are less than 97 percent of adopted estimated revenues; (2) payment of legal settlements relating to the collection of past General Fund revenues; (3) catastrophic losses in excess of the Insurance Fund reserve and all other fund balances; and (4) requests for priority capital maintenance projects if and when the contingencies reserve exceeds \$15 million.

Designated for children and family services programs – This account is used to segregate a portion of fund balance to indicate that resources have been earmarked by county ordinance to provide children and family services to the residents of King County.

**Management Plans for Internal Service Fund Unrestricted Net Assets**

The following Internal Service Funds have unrestricted net assets that have been earmarked by county management for a specific future use as of December 31, 2002:

Information and Telecommunication Services Fund – Data Processing Sub-fund – \$920,215 has been earmarked by management for the replacement of electronic data processing equipment.

Information and Telecommunications Services Fund – Telecommunications Sub-fund – \$1,671,145 has been earmarked by management for the replacement of telecommunications equipment.

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Insurance Fund – \$16,417,528 has been earmarked for catastrophic losses. The catastrophic loss reserve will be used to respond to large, non-recurring losses exceeding \$1 million per incident.

Motor Pool Equipment Rental Fund – \$11,268,354 has been earmarked by management for the replacement of rental equipment.

Printing/Graphic Arts Services Fund – \$150,000 has been earmarked by management for the replacement of printing equipment.

Public Works Equipment Rental Fund – \$10,360,499 has been earmarked by management for the replacement of rental equipment.

Wastewater Equipment Rental Fund – \$3,789,369 has been earmarked by management for the replacement of rental equipment.

**Restatements of Beginning Balances**

General Fund and the Public Health Fund

In 2002, as a result of the implementation of GASB 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, balances which were formerly reported as liabilities in Fiduciary Funds henceforth will be accounted for in the General Fund and the Public Health Fund. The December 31, 2001, balances of these accounts were transferred to the funds, restating the beginning fund balances as follows:

	General Fund	Public Health Fund
Fund Balance – December 31, 2001	\$ 82,743,297	\$ 5,679,176
Animal services donations	275,258	
Real property title assurance reserves	25,152	
Medic One donations for training and equipment	<u>                    </u>	<u>214,483</u>
Fund Balances – January 1, 2002 (Restated)	<u>\$ 83,043,707</u>	<u>\$ 5,893,659</u>

Capital Projects Funds

The prior period adjustment is due to a change in the accounting for arbitrage earnings at the fund level where a liability is recognized at the time when excess interest is earned. Beginning in 2002 the arbitrage liability is recognized only when it is due and payable.

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<u>Capital Projects Fund</u>	<u>Fund Balance 12/31/01</u>	<u>Prior Period Adjustment</u>	<u>Fund Balance 01/01/02</u>
Arts and Historic Preservation	\$ 1,785,012	\$ 61,936	\$ 1,846,948
Arts Construction	1,266,773	20,082	1,286,855
Building Construction and Improvement	(9,838,506)	283,315	(9,555,191)
Building Repair and Replacement	2,773,442	497,373	3,270,815
Cable Communications	1,973,133	289,154	2,262,287
Capital Acquisition & County Facilities Renovation	1,342,541	111,105	1,453,646
Farmland and Open Space Acquisition	2,473,563	5,933	2,479,496
Major Maintenance Reserve	13,689,668	614	13,690,282
Parks CIP	1,292,527	10,490	1,303,017
Parks, Recreation, and Open Space	(697,658)	58,893	(638,765)
Public Art	3,061,039	2,165	3,063,204
Renton Maintenance Facility	3,325,782	350	3,326,132
Surface Water Management Construction	11,259,696	191,437	11,451,133
Technology 1997 Bonds	2,255,756	1,163,509	3,419,265
Technology Systems Capital	2,953,307	112,120	3,065,427
Working Forest	592,309	1,887	594,196
Other Capital Projects Funds	<u>81,637,125</u>	<u>-</u>	<u>81,637,125</u>
Total	<u>\$ 121,145,509</u>	<u>\$ 2,810,363</u>	<u>\$ 123,955,872</u>

Nonmajor Enterprise Funds

King County acquired the land on which the Cedar Hills Regional Landfill is located from the State of Washington in 1992. The land was incorrectly recorded as an asset of the Solid Waste Enterprise Fund. The land should have been recorded as a general fixed asset of the County. The 2002 Land balance has been corrected, resulting in the following restatement of beginning Net Assets:

	<u>Nonmajor Enterprise Funds</u>	<u>Solid Waste</u>
Net Assets - December 31, 2001	\$175,783,344	\$ 89,470,064
1992 Capitalization of Land	<u>(3,457,400)</u>	<u>(3,457,400)</u>
Net Assets - January 1, 2002 (Restated)	<u>\$172,325,944</u>	<u>\$ 86,012,664</u>

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**Component Unit – Harborview Medical Center**

Restricted Assets

Harborview Medical Center restricted assets consists of the following:

\$ 41,087,068	HMC Construction Fund (a restricted fund) – Consists of monies from the 1976, 1988, 1993, and 2000 General Obligation Bond issues that are restricted for construction, improvements, and furnishing of the trauma center and other HMC buildings.
5,438,703	HMC Special Purpose Fund (a restricted fund) – Consists of restricted donations, gifts, and bequests from various sources for specific purposes.
26,158,277	Board-designated assets of HMC Operating Fund (a general fund) – Consists of resources designated for specific purposes, including \$19,067,967 for planned capital and service component; \$1,346,231 for trauma center equity; \$17,431 for commuter services; \$3,844,881 in net fixed assets held for future use; and \$1,881,767 for others.
14,202,665	Board-designated assets of HMC Plant Fund (a general fund) – Consists of resources designated for building improvements, furnishings, and repair and replacement. This fund includes the liability for the 1993 General Obligation Bonds for HMC building construction and equipment acquisition.
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<u>\$ 86,886,713</u>	Total HMC restricted assets.

Restricted Net Assets

Restricted expendable net assets – the \$46,080,355 consists of investments restricted for capital use and by donor. Access to investments restricted for capital use is restricted by King County for designated capital projects. Investments restricted by donor represents assets that are restricted by creditors, grantors, or contributors external to the HMC

Restricted nonexpendable net assets – the \$445,416 consists of permanent endowments by donors.



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**NOTE 14 – CONTINUED**

**Component Unit – WSMLB Stadium Public Facilities District (PFD)**

Restatement of Beginning Balances

The 2001 independent audit for the Washington State Major League Baseball Stadium Public Facilities District (PFD) was completed after the King County Comprehensive Annual Financial Report (CAFR) was issued. 2001 PFD statements were adjusted after publication in the 2001 CAFR.

**STATEMENT OF REVENUES AND EXPENSES**

	<u>COMPONENT UNIT</u> PFD 2001 CAFR	Required Revisions to 2001 CAFR	<u>COMPONENT UNIT</u> PFD 2001 CAFR (Restated)
TOTAL OPERATING REVENUES	\$ 723,800	\$ -	\$ 723,800
TOTAL OPERATING EXPENSES	12,442,093	-	12,442,093
OPERATING LOSS	(11,718,293)	-	(11,718,293)
NONOPERATING REVENUES			
Interest earnings	981,121	-	981,121
Gain on sales of assets	-	1,022,584	1,022,584
TOTAL NONOPERATING REVENUES	981,121	1,022,584	2,003,705
NET INCOME (LOSS)	(10,737,172)	1,022,584	(9,714,588)
Depreciation on property and equipment acquired from capital grants/contributions	12,219,026	-	12,219,026
RETAINED EARNINGS INCREASE	1,481,854	1,022,584	2,504,438
Retained earnings, Beginning of Fiscal Year	43,685,078	-	43,685,078
Retained earnings, End of Fiscal Year	45,166,932	1,022,584	46,189,516
Contributions, End of Fiscal Year	437,497,520	(1,919,599)	435,577,921
FUND EQUITY - END OF FISCAL YEAR	\$ 482,664,452	\$ (897,015)	\$ 481,767,437

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**NOTE 14 – CONTINUED****BALANCE SHEET**

	<u>COMPONENT UNIT</u> PFD 2001 CAFR	Required Revisions to 2001 CAFR	<u>COMPONENT UNIT</u> PFD 2001 CAFR (Restated)
ASSETS AND OTHER DEBITS			
Current assets			
Cash and cash equivalents	\$ 17,603,640	\$ -	\$ 17,603,640
Accounts receivable	58,987	405,000	463,987
Total current assets	<u>17,662,627</u>	<u>405,000</u>	<u>18,067,627</u>
Capital assets			
Land	39,800,469	(1,302,015)	38,498,454
Buildings	488,841,352	-	488,841,352
Improvements other than buildings	4,060,986	33,810	4,094,796
Furniture, machinery and equipment	46,150	-	46,150
Accumulated depreciation	(30,584,608)	-	(30,584,608)
Total capital assets	<u>502,164,349</u>	<u>(1,268,205)</u>	<u>500,896,144</u>
TOTAL ASSETS AND OTHER DEBITS	<u>\$ 519,826,976</u>	<u>\$ (863,205)</u>	<u>\$ 518,963,771</u>
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Total current liabilities	\$ 390,555	\$ -	\$ 390,555
Long-term liabilities			
Other long-term liabilities	36,771,969	33,810	36,805,779
Total liabilities	<u>37,162,524</u>	<u>33,810</u>	<u>37,196,334</u>
Fund equity and other credits			
Contributions	437,497,520	(1,919,599)	435,577,921
Retained earnings			
Unreserved	45,166,932	1,022,584	46,189,516
Total retained earning/fund balances	<u>45,166,932</u>	<u>1,022,584</u>	<u>46,189,516</u>
Total fund equity and other credits	<u>482,664,452</u>	<u>(897,015)</u>	<u>481,767,437</u>
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	<u>\$ 519,826,976</u>	<u>\$ (863,205)</u>	<u>\$ 518,963,771</u>

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**STATEMENT OF CASH FLOWS**

	COMPONENT UNIT PFD 2001 CAFR	Required Revisions to 2001 CAFR	COMPONENT UNIT PFD 2001 CAFR (Restated)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 148,759	\$ -	\$ 148,759
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	(81,154)	-	(81,154)
Proceeds from sale of capital assets		1,919,599	1,919,599
Refunds of contributions and donations	(659,947)	(1,919,599)	(2,579,546)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(741,101)	-0-	(741,101)
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,362,687	-0-	1,362,687
NET INCREASE IN CASH AND CASH EQUIVALENTS	770,345	-0-	770,345
CASH AND CASH EQUIVALENTS - BEGINNING OF FISCAL YEAR	16,833,295	-	16,833,295
CASH AND CASH EQUIVALENTS - END OF FISCAL YEAR	\$ 17,603,640	\$ -0-	\$ 17,603,640